Depreciation of Indian rupee

2386. SHRI RAJEEV CHANDRASEKHAR: Will the PRIME MINISTER be pleased to state:

(a) whether Government has taken note of the recent serious depreciation of Indian rupee *vis-a-vis* US dollar which has the effect of pushing up the prices of imported goods in Indian market; and

(b) if so, the extent of depreciation of Indian rupee during the last three months and the steps proposed by Government to restore the value of Indian rupee in relation to US dollar at a reasonable level?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) The exchange rate of the rupee moved from Rs.39.97/US $ as on end-March 2008 to Rs.44.21/US $ on September 1, 2008 and further to a peak of Rs.50.52/ US $ on December 2, 2008. US dollar gaining strength against major world currencies, outflows on account of FII, increased recourse to hedging by importers, reduced capital inflows and widening trade deficit arising from elevated levels of global oil and commodity prices in the first half of the financial year are some of the factors that could be attributed for the depreciation of the rupee. The index of Real Effective Exchange Rate (REER) of the rupee (6 currency trade based weights with 1993-94 as base year), which is a weighted average of nominal exchange rates adjusted for relative inflation differential between India and foreign countries (the major trading partners of India) is a better indicator of the value of the rupee. The REER fell from a level of 110.87 in March 2008 to 101.98 in October 2008 and further to 100.74 on November 21, 2008. The details of the depreciation of the rupee in the last three months are given in the Table below.

Table: Movements of the rupee/REER in the last three months

Month	Rs. per US dollar	Depreciation in Rs. per dollar over previous month	REER 6 currency, 1993-94 base	Depreciation in REER over previous month
1	2	3	4	5
September, 2008	45.56	5.82	106.89	3.95
October, 2008	48.66	6.35	101.98	4.59
November, 2008	49.00	0.71	100.74*	1.21

*as on November 21, 2008.

The exchange rate policy in recent years has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, while allowing the underlying demand and supply conditions to

determine the exchange rate movements over a period in an orderly way. With a view to alleviating the adverse impact of the turmoil in international financial markets (since mid-September 2008) on the domestic forex market, a number of measures have been taken, which *Inter alia* include:

- The RBI would continue to sell foreign exchange (US dollars) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps.
- The RBI would conduct special market operations to meet the foreign exchange requirements of public sector oil marketing companies against oil bonds.
- The interest rate ceilings on FCNR (B) and NR(E)RA term deposits were increased in stages.
- External Commercial Borrowings (ECBs) norms relaxed: (a) All-in-cost ceilings for ECBs for average maturity period of three years and up to five years have been enhanced to 300 basis points and over five years enhanced to 500 basis points above LIBOR; (b) The overall ceiling for ECB has been increased; (c) Definition of infrastructure expanded to include mining exploration and refining sectors for the purposes of ECB; and (d) 3 G Spectrum will be considered an eligible end-use.
- All-in-cost ceiling in respect of trade credits have been raised (by up to 125 basis points) to 200 basis points over LIBOR [from LIBOR + 75 basis points].
- Provision of forex swap facilities to Indian banks with overseas branches.
- Allowing Banks to raise overseas borrowings from their head-office/overseas branches/correspondents up to 50 per cent of their unimpaired Tier-1 capital as against 25 per cent earlier.

Economic slowdown

†2387. DR. MURLI MANOHAR JOSHI:
SHRI RAM JETHMALANI:

Will the PRIME MINISTER be pleased to state:

(a) whether it is a fact that reasons for economic slowdown seen in country's capital market, have been found out;

(b) if so, the reasons therefor; and

(c) the estimated percentage of impact of each of the reasons to the economic slowdown?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) to (c) The determinants of economic growth, cover, *Inter alia*, savings and investment rates in the economy, performance of the primary, secondary and tertiary sectors, social and economic infrastructure, and the external economic environment. The country's GDP graw by 7.8 per cent in the first half of the current year.

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†Original notice of the question was received in Hindi.